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Donlee Manufacturing Industries Limited

ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1970



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DONLEE MANUFACTURING INDUSTRIES LIMITED

Board of Directors

R. H. BURNS

J. S. LEE

A. S. DONOVAN

P. L. MURRAY

J. C. DONOVAN

G. C. STEWART

R. J. DONOVAN

Officers

A. S. DONOVAN - - - - - President

J. S. LEE - - - - - Vice-President

J. C. DONOVAN - - - - - Vice-President

P. L. MURRAY - - - - - Secretary-Treasurer

Transfer Agent and Registrar

ROYAL TRUST COMPANY

Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver

Auditors

THORNE, GUNN, HELLIWELL & CHRISTENSON

Royal Trust Tower, Toronto, Ontario

Head Office

137 Wendell Avenue

Weston, Ontario

DONLEE MANUFACTURING INDUSTRIES LIMITED

Head Office 137 Wendell Avenue
Weston, Ontario

Divisions PARAMOUNT INDUSTRIES

E. G. Barss—*General Manager*

Plants

137 Wendell Avenue, Weston
1945 Wilson Avenue, Weston
1935 Wilson Avenue, Weston

Sales Office

28277 Dequindre Road
Madison Heights, Michigan

GENERAL GEAR COMPANY

R. J. Donovan—*General Manager*

9-11 Fenmar Drive, Weston

R. H. Burns—*Sales Manager*

MARIKO COMPANY

A. J. A. Mulder—*General Manager*

597 Trethewey Drive, Toronto

Subsidiaries THE NUDAY CO.

J. L. Sullivan—*President*

14615 Wyoming Avenue
Detroit, Michigan

John Fogarty—*Vice-President
and General Manager*

THE NUDAY EQUIPMENT COMPANY OF
CANADA (1968) LIMITED

J. C. Donovan—*President*

137 Wendell Avenue, Weston

RADEX CORPORATION

Ariel Stiebel—*President*

14615 Wyoming Avenue
Detroit, Michigan

John Fogarty—*Vice-President
and General Manager*

AUTOMOTIVE INDUSTRIES INC.

W. H. Clement—*President*

Plant—Owendale, Michigan

G. S. Hoffman—*General Manager*

Sales Office—28277 Dequindre Road
Madison Heights, Michigan

MOBILE MATERIALS HANDLING EQUIPMENT LIMITED

Joseph Gardin—*President*

Plants

3443 Wolfedale Road, Cooksville
954 Middlegate Road, Mississauga

DONLEE MANUFACTURING INDUSTRIES LIMITED

Report to Shareholders

Report of the Board of Directors to the Shareholders for the year ended December 31, 1970.

SALES AND EARNINGS	1970	per share	1969	per share
Consolidated Sales - - - - -	\$12,431,102		\$10,080,158	
Unconsolidated Sales - - - - -	—		2,352,564	
	<u>12,431,102</u>		<u>12,432,722</u>	
Earnings (loss) before the undernoted items - - - - -	(83,425)	(.23)	324,142	.92
Interest of minority shareholders in loss of subsidiary - - - -	(8,326)	(.02)		
Provision for losses of unconsolidated subsidiaries - - - - -	—		100,000	.28
Net earnings (loss) for year - - - - -	<u>\$ (75,099)</u>	<u>(.21)</u>	<u>\$ 224,142</u>	<u>.64</u>

A general slowdown in the North American economy had an unfavourable effect on all divisions of your Company during 1970. As a result, sales for the twelve months ending December 31, 1970 did not increase from the 1969 period, after adjusting the latter for the results of two subsidiaries consolidated for the first time in 1970.

Negative effects were particularly noticeable in the automobile business where conditions through the year were unpredictable and far from buoyant. This resulted in variations in demand for sun visors, glove boxes and other manufactured items which brought on short production runs and inadequate use of expanded facilities. Similarly, completion of a contract for manufacture of end fittings for the Pickering atomic power generating plant disrupted the sales in the General Gear division.

A combination of other factors contributed towards the disappointing results in 1970, thus curtailing your Company's growth pattern. It will be remembered that nine new projects were launched in 1969 as part of a planned growth program. While these ventures had been thoroughly researched prior to commencement, the economic climate of 1970 was not conducive to new developments. These projects involved capital expenditures near \$800,000 as well as costs experienced in research and engineering. The new ventures performed reasonably well during the year, however, the Company faced higher depreciation, interest and other fixed costs. These new expenses had to be absorbed within generally static profit margins, thereby reducing overall returns. In a similar fashion, a full year's costs related to the installation of a new computer facility, were written off against revenue with few offsetting benefits.

Unpegging of the Canadian dollar also had a detrimental effect on earnings inasmuch as the automotive division does a substantial volume of sales in U.S. dollars. At the time the dollar was freed, our export prices had already been established for the 1971 model year. In addition, the high value of the Canadian dollar in terms of the U.S. dollar at the year end, affected the valuation of the Company's American assets.

For 1971, our objective remains the same;—to provide the shareholders of Donlee Manufacturing Industries Limited, with a sound and profitable operation through our existing diversified manufacturing facilities. The primary goal for the present year is to strengthen our working capital position by utilizing presently available production resources and by continuing to direct our efforts toward improving efficiency and reducing costs.

During the consolidation period that lies ahead, your directors have determined that no new corporate acquisitions or entry into new product lines will be undertaken. To this end, with the exception of necessary replacements, no capital expenditures have been committed nor are any contemplated at this time.

The first few months of 1971 have shown some evidence of improved economic conditions in both Canada and the United States. However, until the strength of various recovery factors becomes apparent, we are reluctant to make predictions on the 1971 outlook.

In closing, we are most appreciative of the co-operation we have received this past year from our more than 700 employees. We also thank our customers for their continued patronage, our suppliers for their co-operation and our shareholders for their patience and understanding.

On Behalf of the Board of Directors

A. S. DONOVAN
President.

Thorne,
Gunn,
Helliwell
& Christenson

CHARTERED ACCOUNTANTS

Auditors' Report

To the Shareholders of
DONLEE MANUFACTURING INDUSTRIES LIMITED

We have examined the consolidated balance sheet of Donlee Manufacturing Industries Limited and subsidiaries as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

Toronto, Canada
February 15, 1971

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Consolidated Balance Sh

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Assets

	1970	1969
CURRENT ASSETS		
Cash - - - - -	\$ 33,725	\$ 207,000
Accounts receivable (including unconsolidated subsidiaries \$277,599 in 1969)-	1,701,861	1,845,184
Income taxes recoverable - - - - -	238,079	
Inventories, at the lower of cost and net realizable value - - - - -	1,562,271	1,633,995
Prepaid expenses - - - - -	57,063	115,101
	<u>3,592,999</u>	<u>3,801,280</u>
INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES (note 1)		
Shares, at cost less provision for losses - - - - -		281,407
Advances - - - - -		309,981
		<u>591,388</u>
FIXED ASSETS		
Land, buildings and equipment, at cost - - - - -	4,446,052	3,537,612
Less accumulated depreciation - - - - -	1,188,862	767,855
	<u>3,257,190</u>	<u>2,769,757</u>
OTHER ASSETS		
Excess of cost over book value at dates of acquiring shares of subsidiaries -	379,322	102,450
Patents, at cost less amortization - - - - -	76,492	
Other - - - - -	152,662	6,934
	<u>608,476</u>	<u>109,384</u>
Approved by the Board		
A. S. DONOVAN, Director		
P. L. MURRAY, Director		
	<u>\$7,458,665</u>	<u>\$7,271,809</u>

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— December 31, 1970

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Liabilities

	1970	1969
CURRENT LIABILITIES		
Bank loan secured by general assignment of book debts - - - - -	\$1,115,000	\$1,160,000
Accounts payable and accrued liabilities - - - - -	1,665,911	1,771,185
Income taxes payable - - - - -		70,872
Principal due within one year on long term debt - - - - -	317,816	329,908
	<u>3,098,727</u>	<u>3,331,965</u>
LONG TERM DEBT (note 2) - - - - -	1,963,248	1,596,852
Less principal included in current liabilities - - - - -	317,816	329,908
	<u>1,645,432</u>	<u>1,266,944</u>
DEFERRED INCOME TAXES (note 3) - - - - -	296,896	187,079
INTEREST OF MINORITY SHAREHOLDERS IN SUBSIDIARY - - - - -	<u>6,888</u>	

Shareholders' Equity

CAPITAL STOCK (note 4)		
Authorized		
600,000 Common shares without par value		
Issued		
351,400 Common shares - - - - -	1,069,731	1,069,731
RETAINED EARNINGS - - - - -	<u>1,340,991</u>	<u>1,416,090</u>
	<u>2,410,722</u>	<u>2,485,821</u>
Long term leases (note 5)		
	<u>\$7,458,665</u>	<u>\$7,271,809</u>

DONLEE MANUFACTURING INDUSTRIES LIMITED
and consolidated subsidiaries

Consolidated Statement of Earnings

Year Ended December 31, 1970
(with comparative figures for 1969)

	1970	1969
Sales - - - - -	\$12,431,102	\$10,080,158
Expenses		
Cost of sales and expenses other than the undernoted - - - - -	10,544,552	8,099,220
Depreciation - - - - -	345,169	230,309
Interest—long term debt - - - - -	133,790	57,520
—other - - - - -	124,125	92,409
Remuneration of directors and senior officers - - - - -	127,750	129,250
Selling and administrative expenses - - - - -	1,359,026	789,125
	<u>12,634,412</u>	<u>9,397,833</u>
Earnings (loss) before the undernoted items - - - - -	(203,310)	682,325
Income taxes		
Current - - - - -	(229,702)	273,804
Deferred - - - - -	109,817	84,379
	<u>(119,885)</u>	<u>358,183</u>
	(83,425)	324,142
Interest of minority shareholders in loss of subsidiary - - - - -	(8,326)	
Provision for losses of unconsolidated subsidiaries - - - - -		100,000
Net earnings (loss) for the year- - - - -	<u>\$ (75,099)</u>	<u>\$ 224,142</u>
Net earnings (loss) per share - - - - -	<u>\$ (.21)</u>	<u>\$.64</u>

Consolidated Statement of Retained Earnings

Year Ended December 31, 1970
(with comparative figures for 1969)

	1970	1969
Balance at beginning of year - - - - -	\$ 1,416,090	\$ 1,191,948
Net earnings (loss) for the year - - - - -	(75,099)	224,142
Balance at end of year - - - - -	<u>\$ 1,340,991</u>	<u>\$ 1,416,090</u>

DONLEE MANUFACTURING INDUSTRIES LIMITED

and consolidated subsidiaries

Consolidated Statement of Source and Application of Funds

Year Ended December 31, 1970

(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
Source of funds		
Operations		
Net earnings (loss) for the year - - - - -	\$ (75,099)	\$ 224,142
Items not involving current funds		
Depreciation - - - - -	345,169	230,309
Deferred income taxes - - - - -	109,817	84,379
Interest of minority shareholders in loss of subsidiary - - - - -	(8,326)	
Provision for losses of unconsolidated subsidiaries - - - - -		100,000
Other - - - - -	4,001	4,086
	<u>375,562</u>	<u>642,916</u>
Working capital of subsidiaries acquired or not previously consolidated - -	146,794	80,257
Issue of common shares - - - - -		1,425
Issue of 7¼ % serial debentures - - - - -	536,555	1,018,445
Issue of 10 % mortgage - - - - -	222,532	
Disposals of fixed assets - - - - -	52,267	12,546
Special refundable tax - - - - -		12,377
	<u>1,333,710</u>	<u>1,767,966</u>
Application of funds		
Additions to fixed assets - - - - -	746,305	1,385,825
Less non-current portion of applicable long term debt - - - - -	20,023	92,500
	<u>726,282</u>	<u>1,293,325</u>
Investments in subsidiaries - - - - -		583,407
Less non-current portion of applicable long term debt - - - - -		253,005
		<u>330,402</u>
Advances to unconsolidated subsidiaries - - - - -		309,981
Decreases in long term debt - - - - -	400,622	293,674
Patents - - - - -	32,120	
Other - - - - -	149,729	
	<u>1,308,753</u>	<u>2,227,382</u>
Increase (decrease) in working capital - - - - -	24,957	(459,416)
Working capital at beginning of year - - - - -	<u>469,315</u>	<u>928,731</u>
Working capital at end of year - - - - -	<u>\$ 494,272</u>	<u>\$ 469,315</u>

DONLEE MANUFACTURING INDUSTRIES LIMITED
and consolidated subsidiaries

Notes to Consolidated Financial Statements

December 31, 1970

1. BASIS OF CONSOLIDATION

These financial statements consolidate the accounts of the following subsidiaries which are wholly owned with the exception of Radex Corporation in which an 80% interest is held:

The Nuday Co. for 1969 and 1970

Mobile Materials Handling Equipment Limited for 1969 and 1970

The Nuday Equipment Company of Canada (1968) Limited for 1969 and 1970

Automotive Industries, Inc. for 1970

Radex Corporation for 1970

Two subsidiary companies, Automotive Industries, Inc. and Radex Corporation purchased in 1969 for a total consideration of \$381,407, were not consolidated in 1969 because the opinions of their auditors on the financial statements had been qualified with respect to opening balances at their dates of acquisition since neither company had been audited prior to acquisition.

In 1969 provision for losses since acquisition of \$100,000 were reflected in the statement of earnings.

The statements of The Nuday Co., Automotive Industries, Inc. and Radex Corporation have been converted from United States dollars to Canadian dollars on the following basis: current assets and current liabilities, at the exchange rate prevailing at December 31, 1970; fixed assets at the rates prevailing at the latter of the date of acquisition of the subsidiary or the date of purchase of the fixed assets; revenue and expenses at the average rate of exchange during the year.

2. LONG TERM DEBT

	1970	1969
6% Serial debentures - - - - -	\$ 17,500	\$ 59,500
Debentures maturing November 15, 1971 held by the Adjustment Assistance Board are payable in monthly instalments of \$3,500 plus interest. The payment of the principal is secured by:		
(i) First chattel mortgage on small plant, machinery and equipment now owned and hereafter acquired;		
(ii) Mortgage of leasehold properties;		
(iii) Assignment of benefits under an insurance policy on the life of a director; and		
(iv) Floating charge against the assets of the company.		
7¼ % Serial debentures - - - - -	1,365,000	984,445
Debentures maturing September 15, 1979 held by the Adjustment Assistance Board are payable in monthly instalments of \$13,000 plus interest. The payment of the principal is secured by:		
(i) First fixed charge on land owned December 31, 1968 and buildings thereon;		
(ii) Fixed charge on land in Vaughan Township;		
(iii) Fixed charge on machinery and equipment now owned or to be acquired subject only to prior charges in respect of the 6% Serial debentures.		
Carried forward - - - - -	\$1,382,500	\$1,043,945

	1970	1969
Brought forward - - - - -	\$1,382,500	\$1,043,945
6% Promissory note - - - - - The note is payable by monthly instalments of U.S. \$3,500 plus interest until maturity on April 1, 1971 and is collaterally secured by a pledge of the shares of The Nuday Co.	23,634	68,994
6% Promissory notes - - - - - Notes maturing July 2, 1974 are payable U.S. \$17,750 plus interest semi-annually commencing January 2, 1970. The payment of the principal is secured by a second mortgage on the real estate owned by Automotive Industries, Inc.	153,005	191,256
9½% Promissory note - - - - - The principal is payable on October 15, 1971, the date of maturity. Interest is payable semi-annually.	100,000	100,000
10% Mortgage payable - - - - - Mortgage maturing December 31, 1975 is payable U.S. \$2,908 monthly, blended principal and interest. Payment is secured by all fixed assets of Automotive Industries, Inc., except those pledged against chattel mortgages.	222,532	
Chattel mortgage - - - - - Chattel mortgage is payable U.S. \$639 monthly including interest.	20,023	
Finance contracts - - - - - Several finance contracts secured by equipment owned by Mobile Materials Handling Equipment Limited and leased to customers.	61,554	90,157
8% Mortgage payable - - - - - Mortgage maturing February 14, 1974 is payable \$2,500 plus interest quarterly. The payment of the mortgage is secured by the Vaughan Township land.		102,500
	<u>\$1,963,248</u>	<u>\$1,596,852</u>

Principal due within each of the next five years is as follows:

1971 - - - - -	\$317,816
1972 - - - - -	234,697
1973 - - - - -	217,229
1974 - - - - -	213,222
1975 - - - - -	316,283

3. INCOME TAXES

The company charges earnings with income taxes currently payable and also with income taxes deferred by claiming capital cost allowances in excess of depreciation recorded in the accounts. The accumulated total of such income tax deferments is reflected in the balance sheet as "Deferred Income Taxes".

4. CAPITAL STOCK

Of 10,000 shares reserved for employees' stock options, the company has granted options on 9,010 shares of its capital stock at \$9.50 per share. Options on 7,610 shares remain outstanding at December 31, 1970 exercisable at various dates up to June, 1973.

5. LONG TERM LEASES

The companies rent several buildings under long-term leases. The aggregate of rentals incurred as an expense on these leases during 1970 was \$159,074. The aggregate minimum rental expense to be incurred under these leases during the five years ending December 31, 1975 will be \$795,350. The leases expire at varying dates to February 15, 1980.

6. SUBSEQUENT EVENTS

Acting on the advice of their solicitors the company has defaulted on the January 2, 1971 payment of the 6% promissory notes. On default the entire amount of \$153,005 becomes immediately due and payable. If litigation arises the company will issue a counter-claim in excess of the defaulted payment.

Head Office 137 Wendell Avenue
Weston, Ontario

Divisions PARAMOUNT INDUSTRIES

Plants

137 Wendell Avenue, Weston
1945 Wilson Avenue, Weston
1935 Wilson Avenue, Weston

Sales Office

28277 Dequindre Road
Madison Heights, Michigan

GENERAL GEAR COMPANY

9-11 Fenmar Drive, Weston

MARIKO COMPANY

597 Trethewey Drive, Toronto

Subsidiaries THE NUDAY CO.

14615 Wyoming Avenue
Detroit, Michigan

THE NUDAY EQUIPMENT COMPANY OF
CANADA (1968) LIMITED

137 Wendell Avenue, Weston

RADEX CORPORATION

14615 Wyoming Avenue
Detroit, Michigan

AUTOMOTIVE INDUSTRIES INC.

Plant—Owendale, Michigan

Sales Office—28277 Dequindre Road
Madison Heights, Michigan

MOBILE MATERIALS HANDLING
EQUIPMENT LIMITED

Plants

3443 Wolfedale Road, Cooksville
954 Middlegate Road, Mississauga

DONLEE MANUFACTURING INDUSTRIES
LIMITED

TO THE SHAREHOLDERS:

Sales in the second six months, which included Radex Corporation and Mobile Materials Handling Equipment Limited, were down from the same period last year. This decline reflects in particular a softness in the automotive industry and the completion of nuclear power station contracts.

The six months earnings show not only the indifferent conditions in the automotive industry but also the results of increasing overall capacity through plant expansions and re-locations as previously reported.

A contract has just been awarded by Ontario Hydro to the General Gear division for the manufacture of End Fittings for the Bruce Nuclear Power Station. The contract amounting to \$3,000,000 calls for deliveries starting in 1971 and continuing into 1974.

The possibility of a major strike in the automotive industry overshadows the earnings picture for the balance of the year. If this threat does not materialize, then a definite profit improvement may be anticipated in the next six months.

A. S. DONOVAN,
President

August 28, 1970

DONLEE MANUFACTURING INDUSTRIES LIMITED

Consolidated Statement of Earnings

	Three months ended June 30,		Six months ended June 30,	
	1970	1969	1970	1969
Sales.....	\$3,419,695	\$3,584,354	\$6,446,661	\$5,529,770
Earnings before income tax.....	60,589	393,383	92,876	581,157
Income taxes.....	16,131	212,775	44,500	306,000
Net earnings before minority interest.....	44,458	180,608	48,376	275,157
Minority interest in loss of subsidiary.....	2,330	—	5,930	—
Net earnings for the period.....	\$ 46,788	\$ 180,608	\$ 54,306	\$ 275,157
Per common share.....	.13	.51	.15	.78

Consolidated Statement of Source and Application of Funds

SOURCE OF FUNDS:		Six months ended June 30,	
		1970	1969
Operations			
Net earnings for the period.....		\$ 54,306	\$ 275,157
Items not involving current funds			
Depreciation.....		166,802	79,129
Loss on disposal of fixed assets.....		2,264	
Minority interest in loss of subsidiary.....		(5,930)	
		217,442	354,286
Working capital of previously unconsolidated subsidiaries.....		146,795	
Issue of capital stock.....			950
Issue of 8% mortgage.....			120,000
Issue of 7¼% serial debenture.....		244,681	
		608,918	475,236
APPLICATION OF FUNDS:			
Additions to fixed assets.....		566,955	501,420
Non-current portion of applicable long term debt.....		36,397	
		530,558	501,420
Investments in subsidiaries.....			380,626
Non-current portion of applicable long term debt.....			172,131
			208,495
Working capital deficiency of consolidated subsidiary at date of acquisition.....			47,958
			256,453
Patents.....		35,000	
Increase in deferred finance charges.....		16,622	
Decreases in long term debt.....		161,795	63,255
		743,975	821,128
DECREASE IN WORKING CAPITAL.....		135,057	345,892
WORKING CAPITAL AT BEGINNING OF PERIOD.....		469,315	928,731
WORKING CAPITAL AT END OF PERIOD.....		\$ 334,258	\$ 582,839

NOTE:

The 1969 figures include The Nuday Co. and Automotive Industries Inc. but do not include Radex Corporation or Mobile Materials Handling Equipment Limited. The 1970 figures include all subsidiaries.